BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE TO ELECTRIC CUSTOMERS IN THE STATE OF IDAHO	CASE NO. IPC-E-03-13

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

LORI SMITH

Q. Would you please state your name, business address, and present occupation?

A. My name is Lori Smith and my business address is 1221 West Idaho Street, Boise, Idaho. I am employed by Idaho Power Company as Director of Strategic Analysis and Risk Management.

Q. What is your educational background?

A. I graduated in 1983 from Boise State University, Boise, Idaho, receiving a Bachelor of Business Administration degree in Information Sciences. In 1999, I was awarded the designation of Chartered Financial Analyst. I have also attended numerous seminars and conferences related to utility accounting, corporate finance and risk related topics.

Q. Would you please outline your business experience?

A. From 1983 to 1986, I was employed by Idaho Power Company and assigned to the Materials Management Department. From 1986 to 1994, I served as a Financial Accountant and later as a Budget Accountant. I was promoted to Business Analyst in 1994. In 1996, I was promoted to Strategic Analysis Team Leader. In 2000, I was named Director of Strategic Analysis. In 2003, I was promoted to my current position as Director of Strategic Analysis and Risk Management.

Q. What are your duties as Director of Strategic Analysis and Risk Management?

A. I manage and conduct strategic analysis, corporate budgeting and administration financial support, and risk management. Strategic Analysis has the responsibility to maintain ongoing financial forecasts, prepare monthly subsidiary accounting, prepare annual service level agreements and develop methodology, perform intercompany accounting and reconciliation, prepare and perform due diligence activities, and develop capital raising strategies.

Corporate Budgeting and Reporting has the responsibility to coordinate financial support for Idaho Power’s administrative areas, prepare monthly variance reporting, and monitor corporate spending and budgets.

Corporate Risk Management has the responsibility of implementing risk management tools related to credit risk, market risk, and operational risk for the utility along with exploring and implementing hedging strategies.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present the test year financial information for the twelve-month period ended December 31, 2003, to present the adjustments which have been included to annualize certain 2003 operating expenses and rate base items, and to quantify and support certain known and measurable changes to the Company’s operating statement and rate base.

Q. Will you be supporting any of the normalizing adjustments to the 2003 test year?

A. No. Mr. Obenchain will address the normalizing adjustments to sales and revenues and Mr. Said will address the normalization of power supply costs.

Q. How was the information for 2003 prepared?

A. For the 2003 general rate case filing, the system financial information was prepared using six months actual and six months estimated information. The 2003 Operations and Maintenance Budget and the 2003 Construction Budget were the basis for this process. The 2003 test year combined January through June actual data with forecast information for July through December. The forecast process started with actual information through April 2003 and then rebudgeted all the non-normalized components for the time period May through December 2003. The additional components related to operating expenses and rate base include the annualizing adjustments to operating expenses and rate base, the known and measurable changes to operating expenses and rate base, and the additional rate base and expense adjustments are detailed in my exhibits.

Q. What were the forecasted components to the test year?

A. The forecasted components include the following items: (1) other operating revenues, (2) other revenues and expenses, (3) operation and maintenance expenses, (4) property insurance expense, (5) regulatory expenses, (6) depreciation and amortization expense, (7) taxes other than income, (8) Idaho Energy Resources Company rate base and income statement, (9) electric plant in service and related items, (10) materials and supplies, (11) deferred conservation programs, (12) other deferred programs, (13) deferred income taxes, (14) customer advances for construction, and (15) deductions from operating and maintenance expenses.

Q. Please summarize the test year adjustments.

A. After the initial 2003 test year information was compiled, the 2003 operating and maintenance expenses were reduced by standard ratemaking adjustments, followed by annualizing adjustments, known and measurable adjustments, and other adjustments. The additional components included in this filing for annualizing adjustments to operating expenses and rate base are adjustments for payroll, property and liability insurance, depreciation, depreciation reserve, and annualized major plant additions and their associated impacts. The additional components for known and measurable changes to operating expenses and rate base are salary structure, employee incentives, pension service cost, property and liability insurance, depreciation, depreciation reserve, American Falls interest, major plant additions known to occur through May 2004 and their associated impacts, and a reduction to operating expense for non-reoccurring prescription expenses related to 2002. The May 2004 cutoff for major plant additions was given to me by Mr. Gale.

Q. How was the forecast method determined?

A. In preparation for the split test year methodology, the Finance Department, in consultation with various other Company departments, developed the methodology used to prepare the forecast portion of the case. Each area developed the methodology to estimate the remaining six months of 2003 starting with the approved 2003 budgets. A rebudget process was begun to reflect the projected expenditures for both Operating and Maintenance (O&M) and Capital project spending from April through December. The Idaho Power Company business units were asked to provide updates to the original 2003 O&M and Capital Budgets as we reviewed our work priorities through to the end of 2003. Additionally, the business units were requested to identify major plant additions that would close to plant Account 101 through May of 2004. Each Company cost center reviewed their expected expenditures for new positions and payroll-related items including benefit expense. Each cost center also reviewed project timing for both O&M-related projects and construction-related projects, and any other known changes to planned work for the remainder of the year. This information was then compiled to produce a May through December restatement of all O&M and Capital budget items.

The case is prepared with January through June actuals combined with the results from the process above to produce the 2003 results. A variety of methodologies were identified that best fit the component being forecasted including meetings with cost center managers, updated estimates for timing of projects which were reflected in our projections, comparisons to prior years actuals, analysis of historical data including five years of history where applicable, and inclusion of any updated expenditures that were not known during the annual budgeting cycle.

Q. Would you please describe Exhibit No. 16?

A. Exhibit No. 16 is a compilation of the Company's supporting schedules for the twelve months ended December 31, 2003. Page 1 of Exhibit No. 16 sets forth the development of the Other Operating Revenues (Accounts 451, 454, and 456) for the 2003 test year. Page 2 of Exhibit 16 shows the Other Revenues (Account 415) and Expenses (Account 416) for the year 2003. The 2003 operating and maintenance expenses, by FERC accounts, appear on pages 3 through 6 of Exhibit No. 16.

Q. Would you please describe pages 7 through 12 of Exhibit No. 16?

A. Page 7 reflects the detail of Account 924, Property Insurance Expense. Page 8 reflects expense for Account 928, Regulatory Commission Expense. Pages 9 and 10 show total depreciation and amortization expense by plant account. Page 11 shows the Prairie Power acquisition amortization adjustment for gains and losses. Page 12 shows the detail of the Taxes Other Than Income Taxes.

Q. Would you please describe page 13 of Exhibit No. 16?

A. Page 13 of Exhibit No. 16 develops the net earnings from IERCo that are added to the booked operating income for ratemaking purposes.

Q. How does the Company treat IERCo's earnings and investment for ratemaking purposes?

A. The primary purpose of IERCo is to mine coal, which provides fuel for the Jim Bridger thermal power plant in Wyoming. Consistent with prior Commission orders, the Company treats IERCo's coal operations as a part of its utility operation and accordingly adds the current year IERCo earnings to electric operating income and the investment in IERCo to the net electric rate base. Accordingly, I have deducted the interest income on notes receivable from Idaho Power Company (line 10, page 13 of Exhibit No. 16) and I have deducted notes payable to IERCo in determining the Company's net investment in IERCo to be included in the rate base (Line 14, page 22 of Exhibit No. 16).

Q. Why have you made these adjustments to IERCo’s earnings and rate base in this proceeding?

A. I have made adjustments to reduce IERCo's rate base for notes payable of $5,909,558 and the associated interest income adjustment of $78,613 to allow IERCo's rate base and earnings to reflect only the cash required to fund IERCo operations for the year 2003. If IERCo were to use these funds to make a distribution of earnings to the Company, or if the Company were to actually fold IERCo into its own operations, the result would be the same as presented herein.

Q. Would you please describe the data contained on pages 14 through 22 of Exhibit No. 16?

A. Pages 14 through 22 of Exhibit No. 16 reflect the development of all the components applicable to the combined system rate base of the Company for the year 2003. Page 14 of Exhibit No. 16 reflects the balance by month and the thirteen-month average of Electric Plant in Service (Account 101). Page 15 of Exhibit No. 16 reflects the balance by month and the thirteen-month average of Accumulated Provision for Depreciation (Account 108). Page 16 of Exhibit No. 16 reflects the balance by month and the thirteen-month average of Accumulated Provision for Amortization (Account 111). Page 17 of Exhibit No. 16 reflects the balance by month and the thirteen-month average of Materials and Supplies (Accounts 154 and 163). Page 18 and Page 19 of Exhibit No. 16 reflect the balance of the Company's Conservation and Other Deferred Programs. For these programs the Company includes the December 31, 2003 ending balance in rate base consistent with prior orders of this Commission. Page 20 of Exhibit No. 16 reflects the balance at the beginning and end of 2003 and the average balance for Accumulated Deferred Income Taxes (Accounts 190, 282, and 283). Page 21 of Exhibit No. 16 reflects the balance by month and the thirteen-month average of Customer Advances for Construction (Account 252). Page 22 of Exhibit No. 16 reflects the balance by month and the thirteen-month average of the rate base components for IERCo, consistent with prior orders of this

Commission.

Q. What adjustments have you made to the 2003 information for ratemaking purposes?

A. After the initial 2003 test year information was compiled, the 2003 operating and maintenance expenses were reduced by standard ratemaking adjustments, followed by annualizing adjustments, known and measurable adjustments, and other adjustments. The additional components included in this filing for annualizing adjustments to operating expenses and rate base are adjustments for payroll, property and liability insurance, depreciation, depreciation reserve, and annualized major plant additions and their associated impacts. The additional components for known and measurable adjustments to operating expenses and rate base are salary structure, employee incentives, pension service cost, property and liability insurance, depreciation, depreciation reserve, American Falls interest, major plant additions known to occur through May 2004 and their associated impacts, and a reduction to operating expense for non-reoccurring prescription expenses related to 2002. The May 2004 cutoff for major plant additions was given to me by Mr. Gale.

Lastly, I have made certain other adjustments to operating expense and rate base that are primarily related to specific regulatory treatment of these items.

Q. Have you prepared or supervised the preparation of exhibits detailing these adjustments to the books and records of the Company for the year 2003?

A. Yes. I have supervised the preparation of Exhibit Nos. 17 through 20, which reflect certain adjustments to the 2003 results of operation and rate base.

Q. Would you please describe Exhibit No. 17?

A. Exhibit No. 17 reflects the detailed support of deductions from the operation and maintenance expense of the Company for certain general advertising, memberships, and contributions. This adjustment has been made by the Company to comply with prior orders of this Commission. The adjustments shown on Exhibit No. 17 are reflected on page 1 and page 2 of Exhibit No. 17.

Q. Would you please describe Exhibit No. 18?

A. Exhibit No. 18, consisting of 4 pages, reflects the detailed support for annualizing adjustments to the 2003 operating expenses and the rate base of the Company. These adjustments reflect changes to certain expense and rate base items as if they had been in existence for a full year or to year-end 2003 levels, whichever is applicable. Items adjusted to year-end levels include an increase in operating payroll of $2,913,244 and property and liability insurance expense of $384,583.

The total annualizing adjustment shown on page 1 of Exhibit No. 18, line 3 amounts to an increase to operating expense of $3,297,826. The computations for the amounts are shown on page 2 of Exhibit No. 18. Page 3 shows the annualized impacts of major plant additions for production and transmission assets. The net annualizing adjustment to rate base is $19,779,389. The related changes to Depreciation Expenses, Depreciation Reserve, Property Tax, and Insurance Expense are shown on line 7 of Exhibit No. 18. Page 4, lines 3 and 4, details by major asset group the change to Depreciation Expense (Account 403) and Depreciation Reserve (Account 108).

Q.   Would you please describe Exhibit No. 19?

A.   Exhibit No. 19, consisting of 5 pages, reflects the detailed support for certain known and measurable adjustments to expenses and rate base that have occurred subsequent to year-end 2003. A summary of the various adjustments is shown on page 1 of Exhibit No. 19.

Q. Would you please describe the known and measurable adjustments that were made to the annualized 2003 results of operations?

A. Line 1, page 1 of Exhibit No. 19 is the normalized annual employee incentive expense of $5,114,821. Line 2, page 1 is an increase to Operating Pension Expense of $2,170,163 to reflect service costs for 2003, which is more representative of pension costs going forward. Line 3, page 1 is a $280,107 reduction related to 2002 Prescription Expenses booked in 2003. Line 4, page 1 shows the operating payroll adjustment of $2,241,595 to estimate the Company's general wage adjustment for 2004. Line 5, page 1 reflects the increased costs associated with American Falls Falling Water payments. Line 6, page 1 reflects an increase to operating expense for premium increases for 2004.

The computation and detail supporting the amount shown on page 1 of Exhibit No. 19 are shown on pages 2 through 3 of Exhibit No. 19.

Page 4 of Exhibit No. 19 shows the known and measurable impacts of major plant additions for transmission assets that will be in service through May 2004. The known and measurable adjustment to rate base is $18,388,690. The changes to Depreciation Expense, Depreciation Reserve, Property Tax, and Insurance Expense are shown on line 5, page 4 of Exhibit No. 19 (Account 403). Page 5 details by major asset group the change to Depreciation Expense (Account 403) and Depreciation Revenue (Account 108).

Q. Would you please explain Exhibit No. 20?

A. Exhibit No. 20 consisting of one page reflects additional adjustments to rate base or operating expense resulting from charges to Account 101, Electric Plant in Service, Account 108, Accumulated Provision for Depreciation, Account 114, Electric Plant Acquisition Adjustments, Account 115, Accumulated Provision for Amortization of Electric Plant Acquisition Adjustments, Account 182.3, Other Regulatory Assets, Account 165, Prepayments, Account 454, Other Operating Revenue and Account 928, Regulatory Commission Expense.

Q. Would you please describe the adjustments to rate base, operating revenues and operating expenses on Exhibit No. 20?

A. Exhibit No. 20, line 1 details the unamortized portion of extraordinary costs associated with increased security measures implemented on company property since September 11, 2001. The amortization is included in 2003 operating expense and will be amortized over the next five years per IPUC Order No. 28975. Line 2 details an increase to operating expense to recover intervenor funding paid to the Land and Water Fund of the Rockies per IPUC Order 28927. Lines 3 through 5 show the unamortized portion of the Electric Plant Acquisition Adjustment associated with the Prairie Power Rural Electric Cooperative purchase in July 1992. Line 6 reflects an increase to Other Operating Revenue for pole attachment revenues to be received in January 2004 that applies to service to be provided in December 2003. Lines 7 and 8 reflect rate base adjustments directly offsetting prior entries to Account 101, Electric Plant in Service and Account 108, Accumulated Provision for Depreciation made during 2003. Statement of Financial Accounting Standard 143 (SFAS 143) implemented in January 2003 requires specific accounting for Asset Retirement Obligations. SFAS 143 has no revenue requirement impact in this case. Line

10 reflects the balance of Account 165320 Prepaid Pension Expense after deducting service costs for 2003.

Q. Are all the data and their adjustments made to your exhibits and supporting schedules calculated on a total system basis?

A. Yes.

Q. Does this conclude your direct testimony in this case?

A. Yes, it does.